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Operating in the stormiest of seas

Despite the disruption and the volatility created by the pandemic, clearinghouses were extremely well prepared

Hedge Fund Administration

Although the hedge fund industry has matured over the years, experts say it is still in its infancy

Brexit Focus

Could Germany take the UK's crown in gaining the status of the EU's financial hub?

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Standard Bank partners with BNY Mellon to deliver custody services for GEPF

Standard Bank has partnered with BNY Mellon, building on their 23-year strategic relationship, to deliver custody services for South Africa's Government Employees Pension Fund (GEPF).

This comes as part of its mandate to provide investor services product and service solutions for GEPF's portfolio of assets currently worth over R2 trillion ($134 billion), following the end of its most recent five-year contract with the bank.

Under the new agreement, Standard Bank's master custody and investment reporting mandate has been expanded to include securities lending among other services.

Standard Bank will provide custody services in South Africa, Africa Regions, and international markets.

These services will be combined with securities lending to provide an investment reporting solution, which includes investment accounting, mandate compliance monitoring, performance and risk reporting services for all of the GEPF's listed and unlisted investment portfolios.

GEPF says the renewal of the mandate cements Standard Bank's position as Africa's largest provider of custody and related services.

The group's assets under custody, administration, and trusteeship have risen to more than R10.3 trillion ($708 billion) as of 31 December 2020.

"We are pleased to have been re-awarded this contract following a competitive tendering process. We believe our reappointment as the sole custodian and investment reporting agent for Africa's largest asset owner is testament to our strong capabilities in this area," says Kenny Fihla, chief executive for corporate and investment banking at Standard Bank.

Adam Bateman, head of business development for Standard Bank Investor Services, says: "Standard Bank has acted as custodian to GEPF since the fund's inception in 1996 and in 2015 expanded its mandate with the fund to include investment reporting services."

According to Bateman, Standard Bank's integrated custody and investment reporting solutions will provide the GEPF with asset safety and independent valuations, alongside other services designed to monitor fund manager mandates and mitigate risk.

"Our partnership with BNY Mellon has allowed us to enhance and grow our investor services business reach in supporting large cross-border asset owners and asset manager mandates such as this," Bateman adds.

Deutsche Boerse strengthens sustainable investing focus with ISS acquisition

Deutsche Boerse has completed the acquisition of an 81 per cent majority stake in the governance, environmental, social and governance (ESG) data and analytics provider Institutional Shareholder Services (ISS).

The acquisition, which was announced in late 2020, follows receipt of all necessary regulatory approvals.

Deutsche Boerse and ISS are now able to serve the growing demand for in-depth extra-financial data, research and analytics.

ISS will continue to operate with the same editorial independence in its data and research organisation that is in place today.

Meanwhile, Deutsche Boerse commits to principles of protecting the independence and integrity of ISS' research, recommendations, ratings and other analytical offerings. To that end, a number of non-interference policies have been put in place.

ISS has also established a policy that it will not provide proxy research or other analytical research on Deutsche Boerse.

Stephan Leithner, member of the executive board of Deutsche Boerse, responsible for the group's pre and post-trading businesses, comments: "The quality, precision and breadth of ISS' data and research is unique in the market. Especially the company's ESG expertise and data capabilities are highly complementary to Deutsche Boerse's businesses along the entire value chain."

According to Leithner, this acquisition is a logical step in Deutsche Boerse's ESG growth strategy, "adding an important piece to the puzzle to become one of the world's leading market infrastructure players on this critical development".

Gary Retelny, president and CEO of ISS, says: "We are pleased to be joining the Deutsche Boerse group of companies and look forward to working with our new colleagues in furtherance of our long-standing mission to empower investors and companies to build for long-term and sustainable growth."

"ISS will continue to deliver the same independent and high-quality research, ratings, and other offerings our clients have come to expect, and we will continue to invest and innovate to ensure they receive next-generation solutions," adds Retelny.

This transaction has been conducted in partnership with current ISS management and Genstar Capital, a leading growth equity investor, who will both continue to hold a stake in the company..

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LGPS launches second global custody services framework

The National Local Government Pension Scheme (LGPS) Frameworks team has launched the new Global Custody Services Framework, which will be available until February 2025. The framework is the second of its kind after the first was launched in October 2013, which was used by more than 30 LGPS Funds over five and a half years.

As part of the new framework, CACEIS, BNY Mellon, HSBC, Northern Trust and State Street have been appointed to provide global custody services.

Services will include safekeeping of assets in a range of global markets, trade settlement, tax reclaims, corporate actions instruction and collection, proxy voting facilitation, foreign exchange services, cash management, investment accounting, online reporting, performance measurement, compliance monitoring, passive currency hedging and other administration services.

Commenting on CACEIS joining the National LGPS Framework for Global Custody Services, Pat Sharman, head of UK at CACEIS, says: "This is the first time CACEIS has joined the LGPS Framework and we look forward to working in collaboration and partnership with the National LGPS Framework, sharing best practice along with our innovative tech-based solutions that will help the LGPS with the regulatory, economic and environmental pressures facing them today."

The National LGPS Frameworks is a not-for-profit programme and all users of the frameworks benefit from the collaboration.

LGPS says using the framework will reduce the time and cost associated with procurement by offering a facility that has already been competitively tendered.

The LGPS is collectively benefiting from more than £139 million in savings from the frameworks programme.

The Cambridgeshire County Council, Essex County Council, Hampshire County Council, Hertfordshire County Council, Norfolk County Council, Northamptonshire County Council, Suffolk County Council, The City of Edinburgh County Council and Wolverhampton County Council all worked together to establish the framework. The councils were also supported by the Norwichbased National LGPS Frameworks team and procurement and legal specialists from Norfolk County Council.

The new global custody services framework is open to all LGPS pools, administering authorities as well as other public sector pension schemes and the pension protection fund.

Northern Trust named fund administrator of Osmosis' fossil fuel free CCF

Northern Trust has been selected by Osmosis Investment Management to provide fund administration, global custody and depositary services for the Osmosis Resource Efficient Core Equity (ex-fossil fuels) fund in a UCITS common contractual fund (CCF).

The appointment extends the relationship between both organisations as Northern Trust already supports several Osmosis funds, including the Osmosis Resource Efficient Equity Market Neutral Fund, which launched in 2018.

The strategy, which Osmosis developed amid growing investor appetite to remove carbon risk from investor portfolios, will allow institutional investors to target an uncorrelated source of sustainable alpha from their core equity exposure, with a positive environmental focus.

The CCF is a tax-transparent fund vehicle, allowing its underlying investors to benefit from double taxation treaties to reduce withholding taxes in markets that recognise transparency as if they held the assets directly.

Ben Dear, CEO at Osmosis Investment Management, says: "As we further expand our fund range to meet client demand for sustainable investment strategies, we need to partner with organisations able to deliver flexible, efficient servicing solutions for our investors."

Dear continues: "Northern Trust's expertise in supporting tax-transparent fund structures, allied with its ability to deliver pan-European servicing solutions, aligned strongly with our plans for the launch and development of this fund."

Clive Bellows, head of global fund services Europe Middle East Africa at Northern Trust, adds: "We are delighted to extend our relationship with Osmosis and support them in executing this fund launch.

In this case, the use of a CCF supports our client's growth and distribution strategy – allowing them to draw on the benefits of tax-transparency for their investors and help bring this fund efficiently to market."

SWIFT approves KDPW ISO20022 buy-in message for CSDR

KDPW, the Polish trade repository and central securities depository (CSD), has gained approval for its buy-in reporting messages from SWIFT ISO20022 ahead of the Central Securities Depositories Regulation (CSDR) go-live in February 2022.

CSDR's settlement discipline regime will bring in mandatory buy-ins in response to failures to settle trades, along with cash penalties.

KDPW will implement the buy-in reporting ISO20022 messages in the second phase of alignment with the CSDR settlement discipline requirements in February 2022.

As the first messages ever to be registered, they set the buy-in reporting standard, developed from scratch in ISO20022, KDPW says.

The standard defined by KDPW and approved by ISO20022 will apply internationally.

The messages will also be available in the SWIFT network as of the next standard release scheduled in November 2021.

The ISO20022 registration followed a complex process including an application, justification, documentation, gathering support, and consultations with international institutions and organisations including SWIFT, the Securities Market Practice Group, Keler, Euroclear, National Bank of Belgium, VP Securities.

The process also required the blessing of the ISO20022 registration management group, ISO200222 registration authority, ISO20022 CSDR evaluation team, and ISO20022 standards evaluation group.

KDPW processes ISO20022 settlement messages in addition to proprietary XML messages and SWIFT ISO15022 messages since 2017. The list of supported ISO20022 messages is steadily growing.

KDPW was licensed to act as a CSD under CSDR by the Polish market authorities in March 2020.

The European Commission recently concluded a market consultation on CSDR including the settlement discipline regime where multiple stakeholders called for the buy-ins to be made a discretionary decision in the case of settlement failure.

The commission's response to the review is expected in Q3.

State Street to launch triparty collateral service

State Street is set to launch a triparty collateral service for its buy-side clients ahead of the fifth phase of the Uncleared Margin Rules (UMR) in September.

The US bank is currently onboarding buy-side clients as part of a pilot phase of building the new triparty solution that will complement its established suite of collateral solutions.

Staffan Ahlner, who recently took over as global head of collateral at State Street, is spearheading the initiative and says the triparty product is part of the bank's strategy to offer an end-to-end service for collateral optimisation and management.

State Street has a pedigree in collateral management going back more than 20 years but this will be the first time it has offered triparty services. The collateral service is part of State Street's Funding and Collateral Transformation division which includes the Funding and Analytics Division led by Travis Keltner. It is designed to create a holistic approach to funding and transformation solutions for institutional buy-side clients.

Ahlner says that collateral management as part of an effective post-trade business is no longer optional for several buy-side firms and the announcement of a move into triparty is the latest step in State Street's overall strategy to provide efficiencies for clients amid the increasingly regulated environment. He explains that the triparty collateral platform will operate as a pre and post-trade collateral optimisation engine.

"This is part of the same platform as our other solutions to enable buy-side firms to easily pick up new tools down the road such as our peer-to-peer or securities lending facilities or access to sponsored repo," he says.

State Street is working with several fintech firms and vendors as part of its overall collateral strategy including Vermeg, Transcend Street and Cassini Systems, among others.

IQ-EQ to create dedicated funds business in Ireland

IQ-EQ is planning to expand its Irish operations with the launch of a dedicated funds business in Ireland to enhance the group's existing fund services offering.

The investor services group says the expansion demonstrates the increasing importance of Ireland as a funds domicile particularly in light of Britain's recent exit from the EU and the changes to the Irish Investment Limited Partnership legislation.

Read the full article online

CIBC Mellon: outsourcing remains 'vital' to Canadian pension funds

In-house capabilities are on the rise among Canadian pension funds, but outsourcing remains vital, according to Chapter 2 of CIBC Mellon's In Search of New Value report.

Its latest report identifies that despite pension funds' plans to manage more assets in-house, it is also clear that outsourced asset management remains important for Canadian pension funds.

Read the full article online

SS&C completes acquisition of Capita's life insurance and pensions servicing business

SS&C Technologies has completed the acquisition of Capita Life & Pensions Services Ireland (CLPSI) and certain related businesses.

The addition of CLPSI acquisition will extend SS&C's business process outsourcing offering internationally. CLPSI provides business process management, technology and consultancy services to the international life and pensions sector.

Read the full article online

Payments Canada selects Interac for Canada's new real-time payments system

Payments Canada has selected Interac as the exchange solution provider for Canada's real-time payments system, the Real-Time Rail (RTR), following a selection process that included participation from the Bank of Canada.

The exchange solution provided by Interac will allow Payments Canada members participating in the RTR to send and receive RTR payment messages.

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HSBC moves Corda Enterprise blockchain technology to the Google Cloud

HSBC has become the first financial institution to move software firm R3's blockchain platform Corda Enterprise onto Google Cloud.

The bank currently uses R3's Corda technology for Digital Vault, HSBC's custody blockchain platform. The move will cut client onboarding times from months to weeks, improving the client experience and significantly reducing costs.

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Global ESG standards body needed, IOSCO says

A leading international securities regulatory body is calling for a three-pronged approach to achieving globally consistent and reliable sustainable financing disclosure standards.

A recent statement by the IOSCO board, the governing and standard-setting body of the International Organization of Securities Commissions, made up of 34 securities regulators offered an update to its long-term environmental, social and governance initiatives.

Read the full article online

Operating in the stormiest of seas

Maddie Saghir reports

Despite the disruption and the volatility created by the pandemic, clearinghouses were extremely well prepared, EACH and LCH explain more

Clearinghouses have to operate in the stormiest of seas. They must be reliable and resilient. In the aftermath of the financial crisis of 2007/2008, the industry continues to work towards greater transparency. In line with this, new stringent regulations have been introduced, and as part of this new 'ecosystem', clearinghouses play a fundamental role to ensure market stability.

Clearinghouses facilitate the exchange of payments, securities or derivatives transactions. The clearing house sits in between two clearing firms and reduces the risk of a member firm failing to honour its trade settlement obligations.

COVID-19 marked the first real test of the 'new ecosystem' since the financial crisis and experts say they behaved remarkably well.

Daniel Maguire, group director of post trade at LSEG and Group CEO of LCH, comments: "The market volatility of March 2020 was a stern test of market infrastructure and central counterparty (CCP) margin models. On the whole, financial market infrastructure performed well during this period. LCH did not adjust or change any margin models and processes. These remained consistent throughout the period of volatility in March 2020."

Over at the European Association of CCP Clearing Houses (EACH), secretary general Rafael Plata remarks: "Clearinghouses coped very well. Looking at the small niche of our market, and the importance clearinghouses play in preserving stability for the whole economy — this has been the best quality seal that CCPs could get."

EACH's policy adviser Elena Tonetto adds: "Within EACH we prepared a short paper with feedback from our members and now we are updating this work. At the Secretariat we really want to understand how our members coped. The feedback we received was very good, and it is clear they coped very well."

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Stormy weather

When large volumes of volatility struck the markets in March and April last year, the main priority for the clearinghouse was to ensure financial stability by absolving risk.

For example, at LCH, the British clearing house group that serves major international exchanges, as well as a range of over the counter markets, the priorities were about ensuring financial stability and maintaining orderly functioning of markets.

While CCPs' models were tested during market volatility, market infrastructure and the cleared derivatives markets performed well on the whole, according to LCH.

In terms of specific challenges, Plata suggests that while there were large volumes of volatility, CCPs did not face major challenges because they have been working on operational resilience for a long time and so were well prepared for the events that ensued with the pandemic.

Many clearinghouses had already made heavy investments in operational resilience.

However, margin requests soared during the initial phases of the pandemic and clearing. There was a lot of variation in margin requests from clearing members as they had to adjust to all these spikes in the market.

"Some CCPs had to deal with several times the normal amount of variation margin requests that they would ordinarily have in a day. This means that in terms of processes, it was much more intense. This was challenging to clearing members due to the volumes but ultimately margin calls were met," says Plata.

EACH had larger than ever daily index drops in France, Italy and Spain while Germany and the UK had the second-largest fall ever on indexes.

Plata explains the circumstances were extremely unprecedented because of the huge market moves that coincided with the fact that most CCPs had to work in business continuity mode, which means that most of them had to work from either their recovery site, from home or split the staff. In most cases, there was a splitting of the staff in several locations.

CCPs have a secondary location in case something goes wrong with the first location in the headquarters, they need to be able to run the operations somewhere else. With the pandemic, CCPs used different possibilities in their business continuity plans to minimise operational risk, according to Plata.

Plata comments: "As such, people were working from the office, people were working from home and others were working in the backup locations."

In addition to the market volatility, clearinghouses also had to deal with the unprecedented circumstance of working in business continuity mode for such a long time. With the pandemic still ongoing, CCPs are continuing to work in this mode despite the fact it is almost one year after the event.

EACH's June 2020 survey asked two main questions among its members: how did CCPs cope with the anti procyclicality rules (so whether this rule proved to be useful and strong); and second, whether they identified any issues in the management of the risk and margins.

"In both cases, the responses were very positive so it was found that CCPs did not have issues in complying with anti procyclicality rules that are included in the European Market Infrastructure Regime (EMIR) regulation. This is the best test the CCPs and legislation could go through in terms of this, so EMIR really proved to deliver its objective," says Tonetto.

On the management of risk and margins, EACH participants also noted that they did not find any particular issues. The little difficulties that were encountered were included in risk tolerance, according to the association.

In terms of specific challenges, Plata says: "What we are hearing from CCPs is that this was all in their plans, they rehearsed this business continuity mode from time to time — they must do it according to the legislation in the European law. So the only new thing that they didn't expect was that they had to stay at home for so long and deal with all of the issues that all of us are dealing with in terms of human resources, checking employees well being, etc. But other than that there was no huge challenge, and in a way it was business as usual. Market volatility and business continuity were dealt with well. It was truly all hands on deck."

All hands on deck

By being well prepared and resilient, clearinghouses did not need to open or closer later or earlier. For example, LCH did not change its hours of operation, nor adjust or change any margin models or processes, which remained consistent and performed well throughout the pre- and post-March 2020 period of volatility.

As well as dealing with the impacts from the pandemic, EACH had to run a business continuity mode in June. This came after the European Securities and Markets Authorities (ESMA) contacted EACH's CCPs saying they wanted to run a business continuity mode on all of the CPPs.

ESMA wanted to ensure CCPs could cope with anything that could occur in relation to default in business continuity mode, and since the CCPs were in business continuity mode at the same time, ESMA wanted to strike while the iron was hot. Eventually, this was performed in June because of the time it took to prepare. Plata says the conclusion was great as ESMA confirmed that everything worked perfectly.

Plata comments: "So this test was very successful and they were able to deal with defaults from clearing members working from home in business continuity mode. From the operational resilience point of view from a CCP, this was another quality seal on CCPs."

According to Plata, this created an overall sense of comfort for the authorities who acknowledged the work of CCPs during the turmoil and also from an operational resilience point of view.

LCH's Maguire notes: "Operational resilience is a fundamental part of our culture and remains an important area of focus and our systems across all asset classes performed as expected during the volatility in March."

By way of example, LCH's EquityClear service went live in March with a new post-trade platform provided by LSEG Technology. The platform successfully processed EquityClear's largest ever volumes processed with nearly 80 million trade sides cleared in the first five days of operation in March 2020.

Smooth sailing?

Although the evidence shows the industry worked well to deal with the pandemic, there have been some critics. There is an argument that one of the reasons for the large margin calls observed during the March events is that margin models 'seem to have underestimated market volatility, in part because they have relied on a short period of historical price movements from tranquil times'. It was suggested that CCPs had to catch up and increase margins at the wrong time, squeezing liquidity when it was most needed.

The World Federation of Exchanges recently published a paper suggesting that CCPs and exchanges could not have prevented the COVID-19 related spikes in margin requirements.

Weighing on this, Maguire says: "The March 2020 market volatility showed that LCH's risk models performed as designed, with no adjustment required to accommodate the heightened volatility: there were no 'spikes' in margin."

Crucially, Maguire highlights that a significant percentage of the collateral increase in LCH CCPs was derived from new risk positions, rather than additional collateral being called against existing positions.

According to Maguire, this demonstrates the importance of setting initial margin requirements conservatively at all times and having margin floors, rather than tailoring them to specific market conditions.

While anti procyclicality buffers are included in European legislation, and currently still in the UK legislation, they mean that CCPs do not have to ask for too much margin during spike times or too little in normal times. Those buffers do not exist everywhere in the world.

Plata suggests that one good thing going forward would be to analyse these buffers and identify how well they worked and look at if there is anything that can be done to improve this in order to smooth out the impact of margin requests because margin requests are going to be there if there is huge volatility in the market.

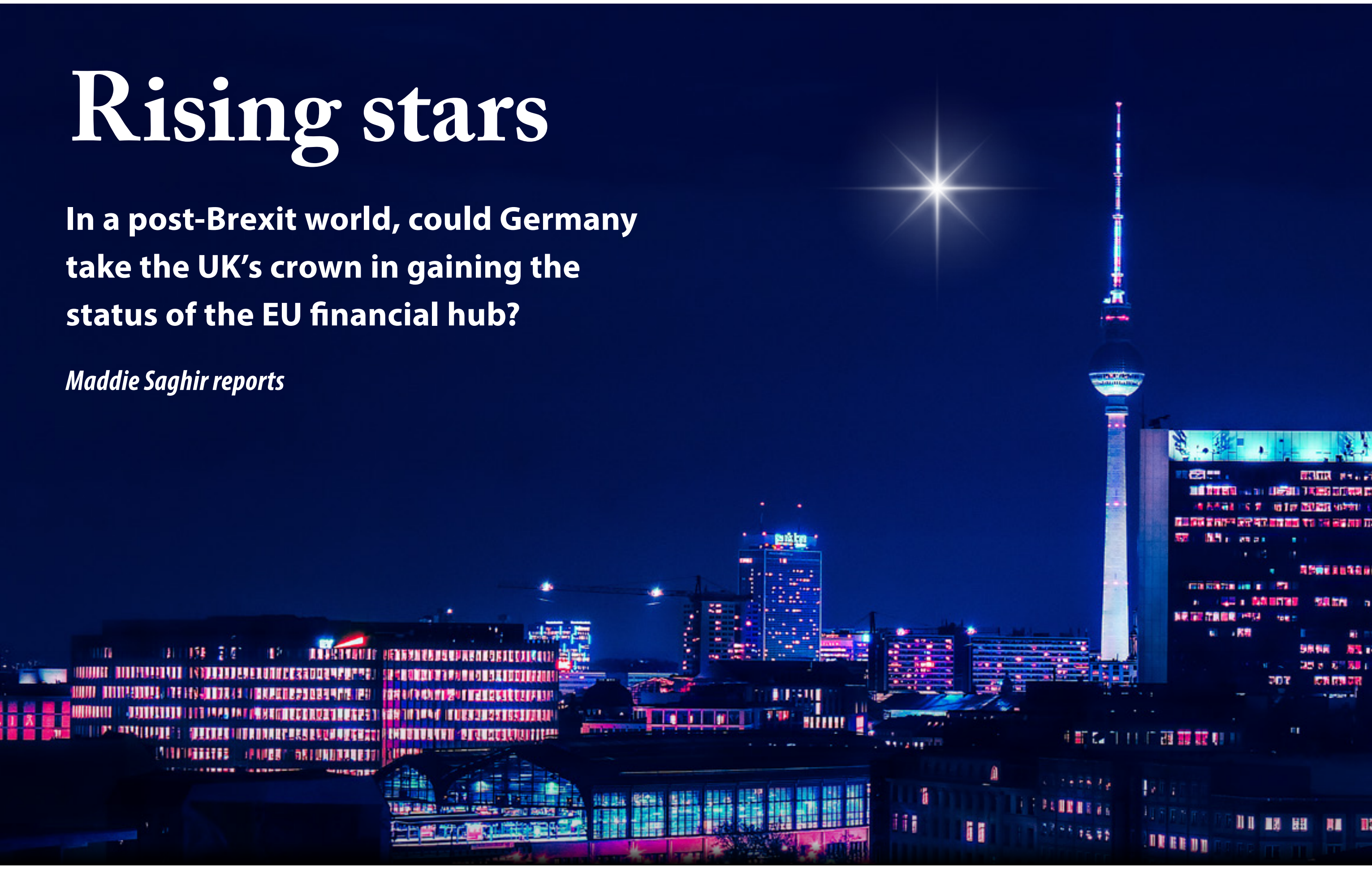
"Work that is done here needs to look at the overall market, not just by pointing at one or the other, it is looking at the interaction of every part of the market: the CCP to the clearing member, the clearing member to the end client, and the central banks and government," comments Plata.

Experts say this is something that should be looked into going forward.

Overall, Plata believes the industry as a whole is working well together to combat challenges. EACH is in almost daily contact with colleagues at clearing members associations such as the International Swaps and Derivatives Association (ISDA), they also represent some of the clients (for example, asset managers and investment funds).

LCH's Maguire adds: "We welcome further dialogue and collaboration in the industry on how best to reduce systemic risk and improve financial stability."

"We continue to work closely with policymakers, regulators, CCPs, and other market infrastructure providers, clearing members and clients on how to most effectively manage initial margin in all market conditions."



Rising stars

In a post-Brexit world, could Germany take the UK's crown in gaining the status of the EU financial hub?

Maddie Saghir reports

In the EU financial markets, experts predict that Frankfurt and Paris are the rising stars and the ones to benefit the most out of Brexit, while London could potentially suffer from the UK's departure out of the EU.

Experts suggest there has been a "lack of focus" on the UK's financial services sector during Brexit negotiations.

With challenges ahead, experts still believe that the strength of London as a financial centre with its history and scale cannot be dislodged.

Ankush Zutshi, vice president, corporate actions and securities processing, IHS Markit, says: "Brexit has provided the impetus for several global financial institutions to expand and set up in Frankfurt and other European financial centres to continue servicing their European clients and, given the substitution of passporting rights to the slightly unclear 'equivalence'. They are well-positioned to tackle the Brexit challenge."

Brexit woes for the UK?

The immediate effects of Brexit were felt on the first trading day of 2021 as nearly €6 billion of EU share dealing shifted away from the city to facilities in European capitals, according to a Financial Times report. It was further reported that business on London hubs for euro-denominated share trading, including Cboe Europe, Turquoise and Aquis Exchange, shifted to their new EU venues set up late last year to cater for the end of the Brexit transition.

Some industry participants suggested that although there has been a shift in trading Euro-denominated stocks onto EU platforms, the majority of staff at Aquis, Cboe, and Turquoise will remain in London.

Further along the line, with no equivalence granted for UK financial services, the longer-term effects of a no-deal Brexit will potentially be more significant. The European Commission's EU-UK Trade and Cooperation Agreement,

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stated: "The agreement does not cover any decisions relating to equivalences for financial services."

"Nor does it cover possible decisions pertaining to the adequacy of the UK's data protection regime, or the assessment of its sanitary and phytosanitary regime for the purpose of listing it as a third country allowed to export food products to the EU. These are and will remain unilateral decisions of the EU and are not subject to negotiation."

Industry expert and consultant Tony Freeman explains that the absence of equivalence is a problem but was anticipated.

He says: "Equivalence is a flaky, politically skewed process that most firms do not want to rely on. Its scope is also limited – it does not cover all business segments. Banks and investment managers have therefore created new EU entities to trade with clients and counterparties inside the EU27."

In addition to the challenge around equivalence, experts are highlighting that the implications of Brexit could mean UK retail funds face a significant and immediate disadvantage compared to its EU competitors.

The implications of Brexit could mean UK retail funds face a "significant and immediate disadvantage" compared to its EU competitors, according to Patric Foley-Brickley, managing director of Maitland, a global advisory, administration and family office firm.

Indeed the UK will need to work extremely hard to remain competitive as Brexit puts the whole UK domiciled fund industry at significant risk in the medium to longer term, according to one industry participant.

For example, a funds management group wanting to market into the UK is more likely to pick Luxembourg or Dublin to access a wider spread of markets for distribution because a fund set up in Luxembourg or Dublin can be marketed into the UK and Europe whereas a fund set up in the UK will be marketed to UK investors.

"Once it is recognised that retail funds are not on the table, immediately the scope of the review is significantly reduced and the corresponding opportunity to 'make the UK the domicile of choice' is limited to alternative asset classes only," says Foley-Brickley.

Meanwhile, it has been noted that other jurisdictions have a significant headstart on the UK in relation to having market recognition for vehicles that are most suitable for a particular alternative asset type. For example, Jersey and Guernsey for real estate and private equity structures and Cayman, Ireland, and Luxembourg for hedge funds.

With these challenges remaining, how will London continue to thrive after Brexit, and in the EU, what country could be the new star?

The rising stars

While a number of countries within the EU are able to benefit from Brexit, Frankfurt and Paris are the rising stars.

Gernot Wurzer, head of sales at CACEIS Bank S.A., Germany Branch, says: "Frankfurt, along with Paris and Luxembourg, has certainly benefited from Brexit, and a number of banks have also taken the major strategic decision to move their European headquarters to continental Europe. The decision by the ECB to establish its new headquarters in Germany, as well as the importance of the Frankfurt stock and derivatives, exchange underlined that Frankfurt belongs to the major financial hubs in Europe."

Wurzer notes that the recently executed UK withdrawal from the EU is merely another reason why the importance of Frankfurt and other financial cities in Europe is continuing to increase.

Similarly, Britta Woernle, director, market advocacy, at Deutsche Bank Securities Services, says: "Post-Brexit we are seeing several EU financial centres which are Frankfurt, Paris, Amsterdam, Dublin and Luxembourg. Frankfurt and Paris are undoubtedly the two financial centres which have benefited the most from Brexit and this tendency is continuing."

Frankfurt is the headquarters of the European Central Bank (ECB) and the European Insurance and Occupational Pensions Authority (EIOPA), while Paris is the location of the European Securities Markets Authority (ESMA) and has become the place for the European Banking Authority (EBA) which was formerly located in London.

It has also been identified that many banks have moved staff and assets from London to Frankfurt as a result of Brexit including Citigroup, J.P. Morgan, Standard Chartered, Goldman Sachs and Morgan Stanley and this process has not yet finished.

"The Euro clearing repatriation from London to Frankfurt and Paris is pending given the equivalence decision granted by ESMA until mid-2022 for UK central counterparties (CCPs). Almost 60 applications for approval of new or expansion of existing legal entities have been submitted to the BaFin and several thousand new jobs have been created in Frankfurt," comments Michael Bowder, market information and collateral/RFP Western Europe in Deutsche Bank's Securities Services team.

Bowder says: "Frankfurt is providing a stable political and regulatory framework, a high degree of liability and low costs to financial institutions and their employees as well as an excellent infrastructure and quality of life."

Frankfurt seems to be leading in terms of the number of financial institutions with more than 20 that have set up bases and shifted business there but there are more than 60 financial institutions that have applied to set up in Frankfurt and signed up with German regulator BaFin.

Many of them and some of the biggest ones have decided to make Frankfurt their new EU hub, and according to Zutshi, leading global financial institutions have moved billions of dollars of balance sheet assets (more than €300 billion) to Germany as per Bundesbank and this amount is projected to double by the start of this year as per many other publications.

It is also estimated that capital movement could be up to €1 trillion. A significant percentage of euro denominated interest-rate clearing has also moved to Frankfurt and projection is much more will come.

"A lot of trading in German bunds has also shifted to Frankfurt," says Zutshi, "as per expert projections, till now thousands of financial services related jobs covering risk professionals and traders moved to Frankfurt and many of these might be Germans in London moving back to Germany. Many more are expected to move to Frankfurt and include mainly traders."

However, it's not all doom and gloom for London as industry participants believe that given the strength of London as a financial centre with its history and scale, it cannot be dislodged.

In December, TheCityUK found that London still has the strongest overall competitive offering for financial services considering its innovative ecosystem, access to talent and skills, enabling regulatory and legal environment and resilient business infrastructure.

"Despite early warnings of mass exodus and movement of businesses, the impact has been limited and the focus of financial institutions has been to ensure continuity of business after Brexit while making sure they adhere to the new regulatory environment."

"There is still a flow of firms and increase of exposure to London as well and many new avenues such as fintech and green finance for it to spur growth in financial services," says Zutshi.

Sven Ludwig, senior advisor, governance, risk and compliance at ifb group, affirms: "London is a global financial centre and the financial centre in Europe. The continental European financial centres competed against each other instead of teaming up and forming a joint proposition."

Ludwig concludes: "Yes, Frankfurt and the other traditional centres gained assets, but all are far away from stepping into a successor role."

"In these discussions, we tend to forget the dynamic in the fintech space. Here, Berlin is the winner. If we think about a reshaping of the financial ecosystem in Europe, then Berlin is the rising star."

Legacy benchmark risk: A robust and effective conversion mechanism

When thinking about 2021 and the challenges that lie ahead, TriOptima says market participants should evaluate all possible transition management options

In October 2020, we saw the official launch of our triReduce Benchmark Conversion functionality that facilitates the proactive reduction of exposure to legacy benchmarks. Much has been written about the future of interest rate benchmarks, but all we can say for certain is that the future is anything but. As a number of regulators recently updated their recommendations for legacy benchmarks, TriOptima is able to support customers in transitioning their over-the-counter (OTC) swap portfolios to the alternative benchmarks.

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Moving towards the most efficient form of legacy benchmark risk

12 months ago, we began the journey to increase awareness of how triReduce's leading multilateral compression network could form the foundation of a robust and effective conversion mechanism on to alternative benchmarks. We demonstrated the value of our existing compression activities as well as providing a window into the future where each individual party can proactively perform their transition.

The basic tenets start with maximising compression opportunities to remain as close to the core net risk position in legacy benchmarks. This objective can be achieved by focusing on participation, trade submission and risk tolerances.

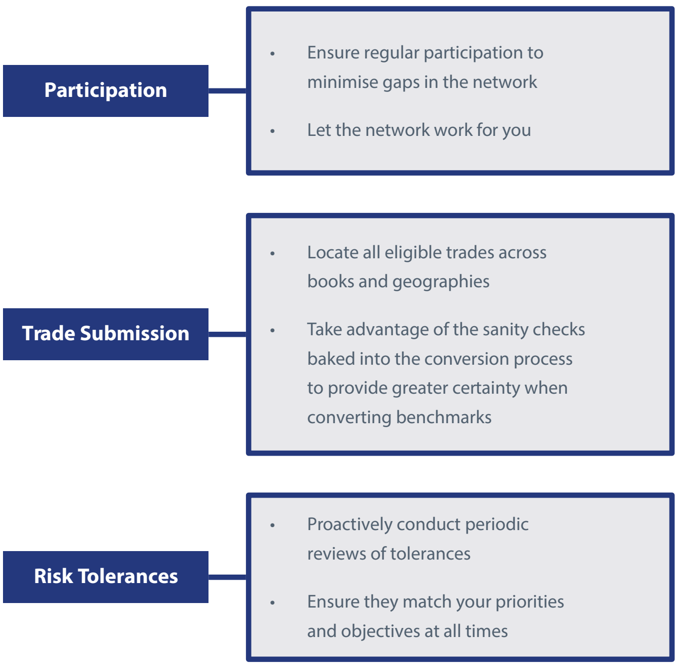

Figure 1: Participation, trade submission and risk tolerances

We conducted a series of coordinated simulations to demonstrate the potential in these keys areas to each customer in quantifiable terms. This included a thorough examination of their compression activity and untapped potential, which can be visualised through the reverse waterfall below. The conversations that followed helped to shed light on the great work that was already being done; clear guidelines for how service utilisation could be improved further; as well as establishing a comprehensive playbook for how back book transition could occur with the adoption of triReduce's Benchmark Conversion functionality.

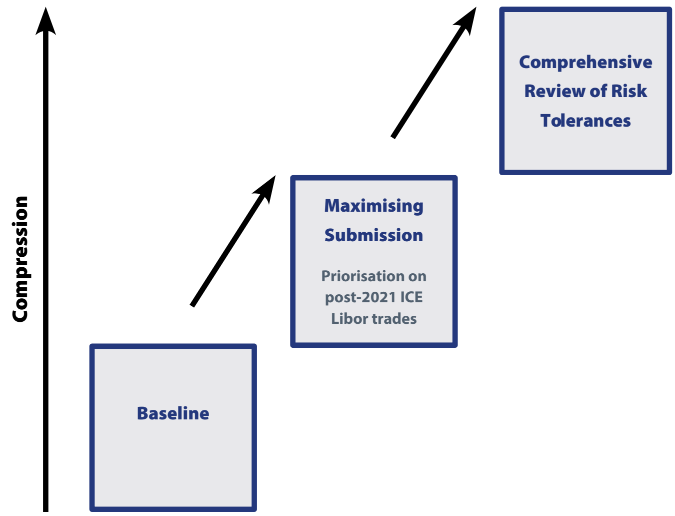

Figure 2: Reverse Waterfall of Compression Potential

The mechanism for converting what remains

In preparation for the second part of the process, where legacy risk can be converted into the alternative benchmark, we have delivered functionality for risk replacement trades based on trade templates that have been made available by the central counterparties (CCPs). These templates are particularly important in portfolios where insufficient volume in the alternative benchmark exists. In this case, we can use the templates to obtain valuations and risk sensitivities from each participating firm's own mid-market curves.

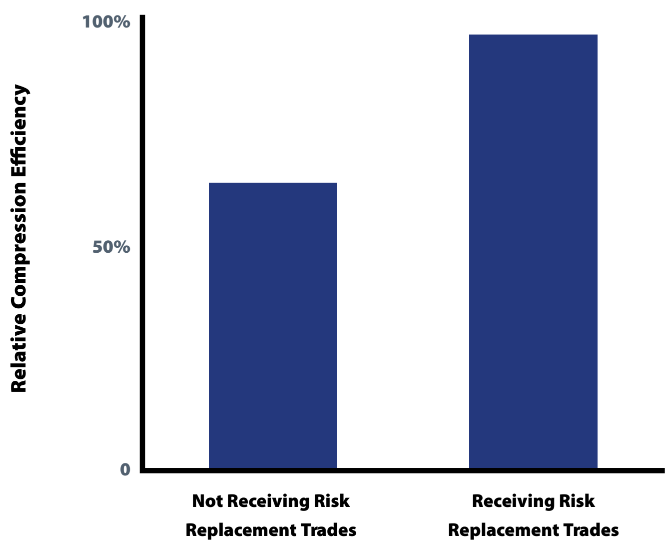

Figure 3: Compression efficiency of risk replacement trades

As shown in the chart, risk replacement trades are initially being used to further maximise the compression of legacy benchmark gross notional. At this time, the early adopters are experiencing up to 40 per cent greater reduction in post-2021 ICE London Inter-Bank Offered Rate (LIBOR) gross notional through our regular triReduce cleared compression cycles. Meaning that iteratively over time, they will find themselves in the best possible position to handle whatever eventuality materialises after the end of 2021.

Maintaining best practices in alternative benchmark portfolios

While our customers focus on ensuring they maintain the most efficient legacy benchmark portfolio possible, they are also making certain that they are implementing the best risk management practices for the increasing number of alternative benchmark trades in their portfolios. One of the ways they are doing this is to review their trade extracts that feed into the compression process, to ensure that these new trades are being captured. In turn, they can verify these trades are being priced and risk measured consistently and correctly through our unique pre-compression reconciliation checks. Here participants can also confirm their valuations against those determined by the CCP in one integral process, providing them with the confidence that when the alternative benchmark trades are compressed, they are done within accurate net present values (NPV) and risk boundaries.

Another way in which our customers are extending best practices to alternative benchmark trades is by validating they can not only execute trades on the new benchmarks, but also price, risk manage and process trade lifecycle events on these trades. Here we once again lend our support to market participants by guiding them through submission into our compression cycles, so they can confirm that beyond entering into such trades, they are also able to exit out of them when the appropriate time comes.

A comprehensive solution for managing a legacy benchmark back book

triReduce supports all approved alternative benchmarks in addition to regularly compressing trades on USD Secured Overnight Financing Rate (SOFR), Euro short-term rate (€STR), GBP Sterling Overnight Index Average (SONIA), JPY Tokyo Overnight Average (TONA), CHF Swiss Average Rate Overnight (SARON), CAD Canadian Overnight Repo Rate Average (CORRA), and AUD Australia overnight index average (AONIA). Extensive investment has been made towards developing a fully scalable infrastructure enabling triReduce to offer a comprehensive solution for managing benchmark transition in legacy portfolios.

Delivering certainty when performing compression and conversion at scale is what sets triReduce's Benchmark Conversion functionality apart. We are already looking to take the lessons learned in our cycles, on to other applications beyond the ICE LIBOR benchmarks. As the industry seeks solutions in the Euro Overnight Index Average (EONIA) to €STR transition, this conversion functionality and these valuation submission checks will continue to play an important role in 2021.

When thinking about 2021 and the challenges that lie ahead, market participants can expect to need to evaluate all possible transition management options. Adherence to the International Swaps and Derivatives Association (ISDA) Protocol for legacy contracts is certainly a top consideration. However, a fully-fledged strategy for transition doesn't end there. It extends to a continued effort to mitigate legacy benchmark exposures, at the same time as ensuring readiness to hold alternative benchmark trades in the portfolio.

Compression plays an integral role here and with it, Benchmark Conversion will offer a vital mechanism for transitioning between benchmarks.

To find out more about triReduce benchmark conversion, click **here**.

Shift in momentum

Maddie Saghir reports

Although the hedge fund industry has matured over the years, experts say it is still in its infancy, and it is currently seeing a significant shift in momentum in outsourcing middle and back-office services

Initially starting in the Middle Ages in Italy, banking used to be carried out by Italians who would conduct commercial trading and transactions sitting on a bench. 'Banco' means 'bench' in Italy, hence the word 'bank' that we use today.

Banking has been around for thousands of years, and hedge funds since 1949, which is long before legends like George Soros, Michael Steinhart, or Julian Robertson.

Eamonn Greaves, worldwide head of sales at SS&C Technologies, affirms: "The hedge fund industry is in its infancy, and independent fund administrators are even younger."

Although in its infancy, the hedge fund industry has matured over the last 15 to 20 years. According to experts, mutual funds are the most mature, while private capital and private equity are the least mature, and the hedge fund administration industry sits in the middle.

Hedge fund administration involves the accounting, consulting and management of an investment firm's key funds. A third-party, hedge fund administrator's primary duties are to protect investors' interests and to ensure that a firm's funds are operating efficiently.

Over the past 20 years, there has been an expectation that all hedge funds will and should utilise a fund administrator. Experts say that one result of this shift has been more vendors offering fund administration services, creating more options for hedge fund managers.

"Most managers use an independent hedge fund administration provider, however, there are varying levels of expertise and technology across the industry. Smaller or less sophisticated providers may still be heavily reliant on excel spreadsheets whereas larger providers or market leaders have automated technology solutions that can support all instrument types," says Iain Carey, head of hedge fund services for Asia Pacific, Northern Trust.

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While managers used to seek hedge fund administration providers for fund administration services only, Carey says that now significantly more managers are outsourcing further up the value chain and are reliant on hedge fund administration providers for middle-office functions, management, risk and portfolio analytics, cash optimisation and treasury functions.

In order to reach a maturing state, the industry must consolidate. Richard Murray, global head of hedge at Sanne, believes consolidation has been a recurring theme for a number of years and will most probably continue in the near future.

"The industry is trending toward a final set of regional and global firms, but at present, a wide variety of local and global operators still remain active," he says.

Mergers and acquisitions

In line with working towards greater maturity, there has been much movement in mergers and acquisitions (M&A) in the hedge fund industry over the last few years, partly due to the fact that hedge fund administrators, in general, do not make attractive margins.

The exit by global banks for whom hedge fund administration was not a core activity and consolidation have also been drivers of this trend.

Throw into the mix regulatory burdens, poor performance from the manager, plus the expensive cost of technology and human capital and it is perhaps not hard to see why. As well as this, Andre Le Roux, head of business development and client management (Africa) at Maitland says the size required for critical mass is getting ever larger and probably a bit elusive.

"It is probably equally true that the inability to get real automation has meant that only the big survive. Whether the big are thriving remains to be seen. Ultimately it becomes a 'race to the bottom' and increased pressure for more M&A," he comments.

Northern Trust's Carey noticed the exit of several global and investment banks from hedge fund administration as they exited non-core businesses.

Hedge fund administration is people and process focused and requires a commitment to asset servicing. Carey notes that for a company to provide the necessary long-term investment in the technology and operating model which successfully supports it, hedge fund administration needs to be a core business for the company.

> *"Most managers use an independent hedge fund administration provider, however, there are varying levels of expertise and technology across the industry"*

Carey says he has also observed a degree of consolidation across the hedge fund administration industry reducing the number of global providers and managers who pivoted were successful.

Shift in demand?

Demand in hedge fund services is firmly robust, experts say, but there were some negative impacts brought about by the pandemic. The pandemic particularly took its toll on halts to intended fund launches as well as delays in investment allocations.

The pandemic did however bring to light the inefficiencies of legacy systems and processes in an accelerated manner.

Greaves explains that firms were thinking about making a change or doing an upgrade pre-pandemic, the recent events have only increased their focus and desire to make those changes.

According to Greaves, fund managers took an initial 'wait and see' approach to transformation projects through the summer months. Since then, firms have been accelerating their operational transformation plans.

The disruption of the pandemic also made it difficult for asset allocators to complete in-person due diligence, which created asset fundraising challenges for new managers. In turn, this meant there were lower launch sizes or launches deferred to 2021.

Carey says: "The pandemic highlighted the benefits of outsourcing middle office functions such as post-trade execution to a hedge fund administration

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Maitland's Africa-based Roux observes that the pandemic has resulted in an element of 'COVID Inertia'. So generally, he says, there has been little movement between administrators and little appetite for new services.

"Whether the hedge fund industry remains a standalone entity or simply another tool for managers within the asset allocation spectrum will determine whether hedge fund administration services will develop. It is likely that demand will remain mooted and again become the domain on boutique outfits servicing a small niche," adds Roux.

Trends to drive growth

Despite the challenges of the pandemic, experts say managers are adapting their strategies to shifting market conditions, which has been most prevalent in the move from pure-play hedge funds expanding into closed-end private structures. Private equity is the most predominant, alongside private debt, real estate and infrastructure.

Northern Trust's Carey affirms that there are also instances of private equity shops exploring open-ended fund structures, but the inherent imbalance of portfolio versus investor liquidity is a persistent challenge.

The emergence of these traditional hedge funds into 'hybrid' structures has strong implications for their own operating models, as well as for service providers and other stakeholders.

Ultimately, managers must consider their core strategy in the context of alpha versus liquidity, the shifting investor landscape, and the practical realities of executing their business strategy, according to Carey.

He says: "With asset allocators increasing their allocation to private equity, hedge fund administration managers will follow investors' money and establish their own closed-ended private equity funds. And by expanding their offering, from hedge to hybrid private equity, they open up the universe of interested investors."

Other trends set to drive growth in the funds industry include larger firms wanting a more holistic and comprehensive service provider relationship. Experts identify that there is a demand for value-added services as opposed to a pure focus on price management.

For example, SS&C is seeing a significant shift in momentum in outsourcing middle- and back-office services, in addition to firms seeking a full front-to-back offering.

SS&C's Greaves suggests that a complete digital experience for customers and the convergence of hedge, closed-end funds and registered funds is emerging as large asset managers seek to attract and retain customers.

"Some hedge fund administrators are scrambling to react, ensuring they are set up correctly to succeed in the new environment," comments Greaves.

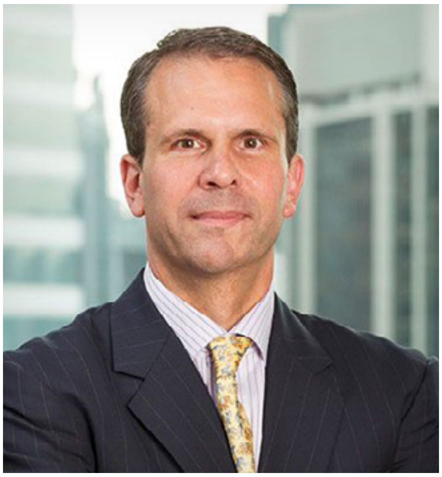
Meanwhile, Murray muses that although there were winners and losers, overall during the pandemic, the hedge fund industry reminded investors of the value they bring as risk managers, during market shocks and times of increased volatility.

Murray concludes: "All indicators point to investors having recognised this and that they intend to increase their hedge fund allocation."

"Regulatory reporting continues to evolve as the demand for environmental, social and governance reporting increases."

"Hybrid fund strategies are a growing trend providing an opportunity for hedge fund administrators with diverse skills and consolidated technology to capture opportunities."

BNY Mellon has appointed Mark Militello as Japan country executive to drive the execution of its Japan strategy and growth priorities, and oversee governance responsibilities, including regulatory and legal compliance.



Militello is currently based in Hong Kong but will relocate to Japan in light of his new position. He will still continue to serve in his current role as Asia Pacific (APAC) head of markets and clearance and collateral management for BNY Mellon.

In total, Militello has more than 18 years of experience living and working in Japan including with Shinsei Bank, Lehman Brothers and Morgan Stanley.

He began his career at Morgan Stanley in New York and first moved to Japan in 1987. He joined Lehman Brothers in Japan and later moved to Shinsei Bank in Tokyo, where he held various senior roles, including as chief operating officer of the institutional bank and co-head of corporate banking.

Militello succeeds Doug Hymas, who informed the company of his decision to leave.

Fangfang Chen, APAC chair and APAC head of asset servicing and digital, BNY Mellon, says: "Japan is an important market for BNY Mellon. With a presence of more than 50 years in Japan, we continue to see opportunities to deepen our client relationships and grow our business."

"Mark Militello's combined local, regional and global experience in the financial services industry will be instrumental as we continue to execute on our growth priorities in Japan," Chen adds.

Quorsus, a provider of consultancy services to financial institutions, has hired Andrew Pinnington as director and regulatory reporting subject matter expert.

Pinnington joins the consultancy from his previous role as executive director, derivatives regulatory operations at Goldman Sachs International, and will be helping to lead Quorsus' regulatory reporting practice.

At Goldman Sachs, Pinnington managed the European derivatives reporting team, where he regularly worked with European regulators to influence their oversight and suggest ways in which they can address ambiguity in regulations.

Prior to his time at Goldman Sachs, Pinnington was a consultant at challenger consultancy ElixIRR, in the capital markets practice where he implemented the European Market Infrastructure Regulation (EMIR) at the original go-live in 2014.

He also built a Dodd-Frank trading surveillance solution, and remediated historic Markets in Financing Transactions Directive transaction reporting issues.

In his new role at Quorsus, Pinnington's core responsibilities will be around leading the development of the regulatory reporting practice and serving as a trusted advisor in Quorsus' ongoing and future client initiatives.

Carolyn Van den Daelen, chief of staff and managing partner, Quorsus says: "As a financial services change expert with strong relationship building skills and multi-jurisdictional experience across the project lifecycle, Andrew Pinnington is the perfect choice to help lead our high performing regulatory reporting practice."

Pinnington comments: "I'm absolutely delighted to be joining Quorsus to lead the reporting practice at such an exciting time for the business. I've been following the company's progress over the past year and couldn't help but be impressed by the quality of the team they have assembled. I'm really looking forward to working with our clients to address their most pressing challenges and deliver high quality, tangible outcomes".

Quorsus' regulatory reporting practice provides specialised advice and insights across the post-trade technology, data, and compliance sectors while incorporating and shaping industry best practices.

Guernsey Finance has appointed Grant McLeod as its first dedicated representative in South Africa.

McLeod has spent 20 years in financial services in South Africa, particularly in private wealth, with companies including Ashburton and Barclays Private Wealth.

In his capacity as a South Africa representative, he will look to build on significant developments made by Guernsey in South Africa over the past few years.

This will include areas in investment funds and private wealth, through open-ended fund structures, trusts, pensions and other vehicles.

He will also promote the island more widely in sub-Saharan Africa.

McLeod notes that Guernsey is a jurisdiction well known to most South African investors, and his role is to continue to reinforce Guernsey as the jurisdiction of choice among the South African investment community.

"Having worked in the South African markets, and having assisted South African clients to invest outside their home jurisdiction, helping to connect South Africa with Guernsey across all sectors comes naturally to me and I'm looking forward to explaining the positives that Guernsey has to offer our market," says McLeod.

James Crawford, director of international business development at Guernsey Finance, explains the appointment in the country was an important move for Guernsey.

Crawford comments: "Guernsey's key strengths of security, stability and substance have resonated really strongly in South Africa on the visits we have made in the past few years, pre-COVID. It is clear that Guernsey is now a key jurisdiction for wealth managers in South Africa for funds, trusts, pensions and other corporate structures."

"McLeod will give the South African market a more consistent Guernsey presence and ensure that Guernsey solutions remain front of mind for clients and their advisers," Crawford adds.

TMF Group, a provider of critical compliance and administrative services, has appointed Paul Adamiak as commercial director for fund services.

In his new role, Adamiak will focus on scaling up TMF Group's service offering to Australian and offshore asset managers and institutions investing in Australian real assets. Based in Sydney, Australia, Adamiak will report to Andrew O'Shea, global head of fund services.

Adamiak previously worked at TMF Group from 2008 to 2019 as an associate director in the global fund services business line.

During this time, he held various sales, operations and product development roles, having spent his first eight years in Amsterdam as a team leader overseeing client services and relationship management.

In 2017, he returned home to Sydney to support the development of private equity and real estate administration services.

Prior to returning to TMF Group, he was responsible for new businesses at Evolution Trustees, an Australian professional trustee. He started his career in the business services team of a large accounting firm and later worked as a financial accountant within the structured finance team of an Australian listed investment bank.

Commenting on the appointment, O'Shea says: "Adamiak's previous experience at TMF Group showed what a great professional he is. Working with the commercial team, I expect him to have an immediate impact on how we approach clients. I look forward to working with him in this new role. It is exciting to have him back on our team."

Adamiak adds: "TMF Group was my home for 11 years, and a place where I learned a lot. It feels good to be back here as part of the fund services team and to be able to contribute once again to this great company. The fund services team is well equipped to go above and beyond and I want to help our clients see why we are the best choice when it comes to dealing with their investments."